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THE "COMMON AGRICULTURAL POLICY" ON SUGAR

by

Hans C. Hirsch

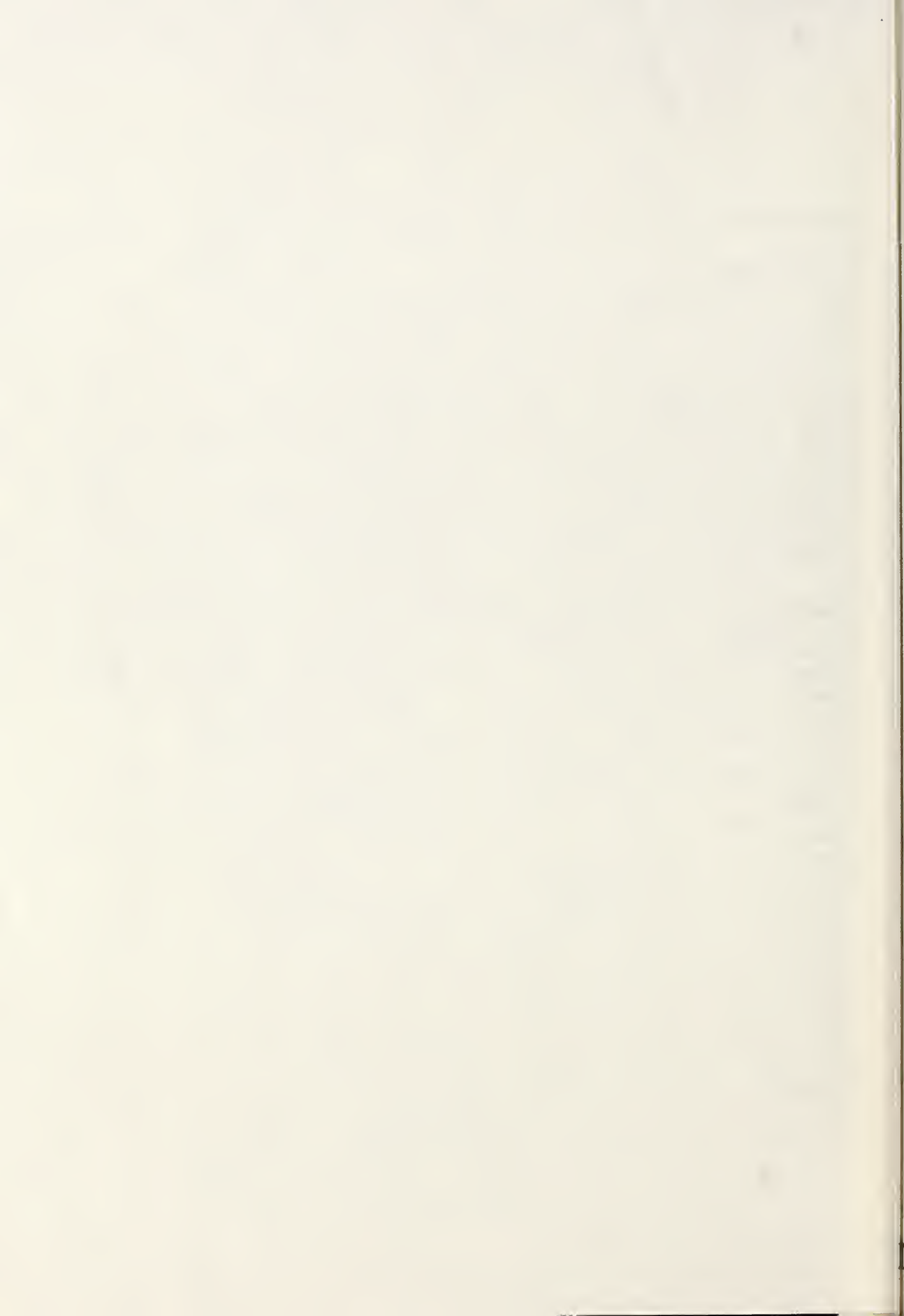
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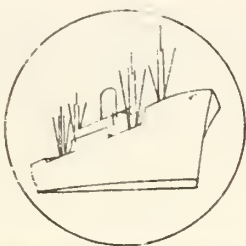
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## SPECIAL in this issue

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### EUROPEAN "COMMON AGRICULTURAL POLICY" ON SUGAR

by

Hans G. Hirsch 1/

Sugar is scheduled to be the next commodity to be subjected to the variable import levy system of protection in the six Common Market countries. The submission by the European Economic Community (EEC) Commission to the Council of Ministers of proposals for a common sugar policy 2/ follows the adoption of the variable levy program of protection for feed grains, wheat, wheat flour, pork, lard, poultry and eggs in 1962 and the agreement, in principle, on similar "Common Agricultural Policies" for rice, beef and veal, and dairy products. Variable levies on rice as well as on beef and veal are about to be imposed. 3/

The United States an Importer from the EEC. While the United States has been an important exporter to the Common Market countries of the commodities on which variable import levies were first imposed in 1962, sugar has been imported into the United States from the Common Market at an average annual rate of 112,000 short tons, raw value, during 1961-63: 77,000 tons of these imports have come from the French West Indies (Guadeloupe and Martinique), which, together with Réunion and Guiana, are integral parts (Départements) of the French Republic. Indeed, the European Economic Community as a whole is quite generally a net sugar exporter. Most exports originate in France and are destined for Algeria and the newly independent countries of formerly French Equatorial and West Africa which are associated with the Community. In the past, when these countries were under French sovereignty, sugar shipments from France to these and other formerly French areas might have been considered domestic French rather than international trade. In that view, France was not as regular and as large a net sugar exporter as it has been since all shipments from Metropolitan France and the overseas Départements have become international trade. Switzerland and Morocco have typically been other leading sugar export outlets for France.

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1/ International Agricultural Economist, Trade Statistics and Analysis Branch, Development and Trade Analysis Division, ERS.

2/ Communauté Economique Européenne. Commission. Proposition d'un règlement du Conseil portant établissement graduel d'une organisation commune des marchés dans le secteur du sucre. VI/COM (64) 27 final. Brussels, 10 March 1964; mimeographed, 62 pp.

3/ Lermer, Stuart, The EEC Rounds Out Its Common Agricultural Policies. II Foreign Agriculture (9): 3-5, March 2, 1964, FAS, USDA, and European Community, no. 63, pp. 1-2, January 1964, Washington, D.C.



In addition to visible sugar imports, the United States during 1961 and 1962 imported annually from the EEC an estimated 13,000 short tons of sugar that had been added to principal sugar-containing manufactured products. Almost one-fourth of that sugar was contained in candy and sweet chocolate, about 17 percent in alcoholic beverages, and the rest in sweetened baked articles and in maraschino cherries. 4/

On the other hand, EEC countries have also imported sugar from third countries. Sugar has been imported for consumption and for refining and re-exportation as refined sugar or as sugar contained in manufactured products.

U.S. Sugar Exports in Canned Fruits. U.S. sugar re-exports to all destinations averaged slightly over 50,000 short tons in recent years. Most of this tonnage, however, is not exported as visible sugar but as sugar contained in manufactured products. An estimated 12,000 short tons, or one-fourth of all average U.S. sugar re-exports in 1961-62 was sugar that had been added to canned peaches, canned pineapples and canned fruit cocktail exported to the EEC. These three products are by far the leading sugar-containing U.S. export items to the EEC. Coincidentally, the tonnage of added sugar contained in these U.S. export products is about the same as that contained in principal import products from the EEC.

Combined U.S. exports of these three canned fruit products to the EEC virtually doubled from 1960 to 1962 when they amounted to about a quarter billion pounds; but they dropped to the approximate average 1961-62 level in 1963; see table 8. The estimated amount of sugar added to these products during the canning process is 13 percent of final product weight for canned peaches and canned fruit cocktail and 9 percent for canned pineapples.

While the value of the sugar that has been added to these export products is only somewhat over \$1 million, the export value of the products averaged \$24 million in 1961-62. Moreover, the EEC countries accounted for around 40 percent of our total exports of these three products.

EEC Sugar Trading. Well before the EEC was established by the Treaty of Rome in 1957, France and Belgium successfully insisted during the negotiations leading to the International Sugar Agreement of 1953 that up to 175,000 metric tons of trade between the Belgo-Luxembourg Economic Union, France, Germany, and the Netherlands be exempted from the quotas which were established by the Agreement. Italy was added and the exemption was reduced to 150,000 tons in the Agreement of 1958. Sugar exports between the five EEC economic entities rapidly rose from insignificance to 100,000 metric tons in 1955 and to 161,000 tons in 1956; they amounted to 176,000 tons in 1962 and to at least 263,000 tons in 1963.

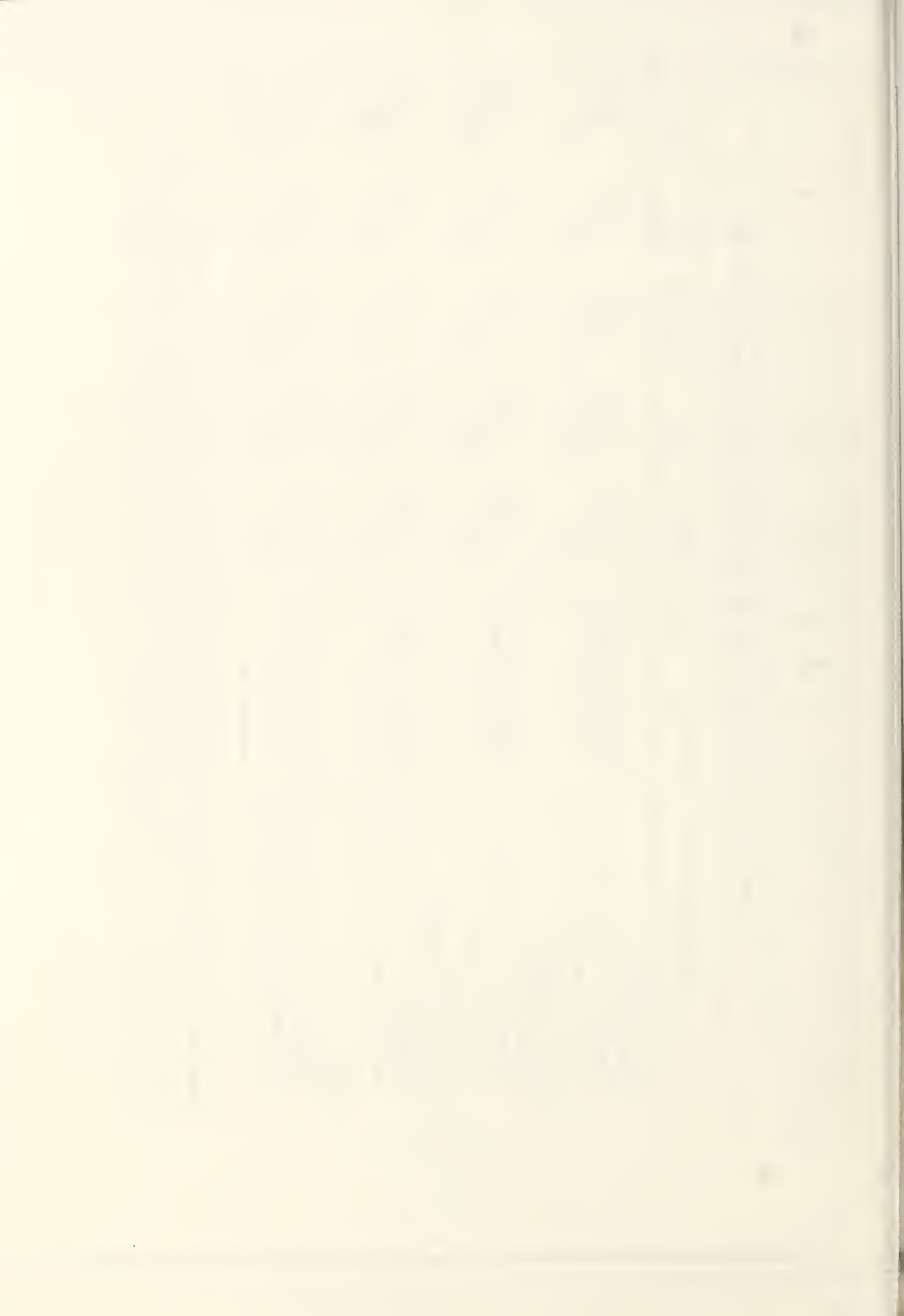
4/ These estimates of added sugar content were obtained by following the methodology described by the author in "The Sugar Content of Products Imported into the United States," Sugar Reports 111, July 1961, pp. 4-12, ASCS, USDA. The following additional estimates of added sugar content, in grams per 100 cc, were used for alcoholic beverages: malt liquors 0.5, cordials and liqueurs 40, champagne 6, vermouth and other wines 10.



Table 8.—U.S. exports of canned peaches, canned pineapples and canned fruit cocktail to the European Economic Community and estimated added sugar content, 1960-1962

| Commodity and unit of measure |                 | 1960  | 1961  | 1962   | 1961-<br>1962 | 1963   |
|-------------------------------|-----------------|-------|-------|--------|---------------|--------|
|                               |                 |       |       |        | average       |        |
| <b>Canned peaches</b>         |                 |       |       |        |               |        |
| Value.....                    | Million dollars | 7.7   | 9.4   | 16.0   | 12.7          | 13.2   |
| Quantity.....                 | Million pounds  | 73.4  | 90.1  | 159.2  | 124.7         | 129.8  |
| Estimated sugar.....          | Short tons      | 4,774 | 5,859 | 10,349 | 8,104         | 8,427  |
| <b>Canned pineapples</b>      |                 |       |       |        |               |        |
| Value.....                    | Million dollars | 5.9   | 5.3   | 9.0    | 7.1           | 6.1    |
| Quantity.....                 | Million pounds  | 39.9  | 35.9  | 63.2   | 49.5          | 44.7   |
| Estimated sugar.....          | Short tons      | 1,795 | 1,615 | 2,844  | 2,229         | 2,012  |
| <b>Canned fruit cocktail</b>  |                 |       |       |        |               |        |
| Value.....                    | Million dollars | 2.6   | 3.0   | 4.5    | 3.7           | 5.4    |
| Quantity.....                 | Million pounds  | 15.9  | 19.4  | 31.0   | 25.2          | 35.8   |
| Estimated sugar.....          | Short tons      | 1,034 | 1,259 | 2,012  | 1,636         | 2,227  |
| <b>Total</b>                  |                 |       |       |        |               |        |
| Value.....                    | Million dollars | 16.2  | 17.6  | 29.5   | 23.6          | 24.7   |
| Quantity.....                 | Million pounds  | 129.3 | 145.4 | 253.4  | 199.4         | 210.2  |
| Estimated sugar.....          | Short tons      | 7,603 | 8,733 | 15,205 | 11,969        | 12,776 |

Source: U.S. Bureau of the Census, Report F7 410; 1963 data are preliminary. Estimated added sugar content, canned peaches and canned fruit cocktail 13 percent, canned pineapples 9 percent, based upon "Conversion Factors and Weights and Measures for Agricultural Commodities and Their Products" U.S.D.A., P.H.S., Washington, D.C., May 1952 and "Sugar Reports" No. 111, U.S.D.A., ASCS, July 1961, p.5, but slightly modified.



The balance of the EEC as a unit during 1960-62 was as follows:

|                          | <u>3-year totals</u>                | <u>annual averages</u> |
|--------------------------|-------------------------------------|------------------------|
|                          | <u>1,000 metric tons, raw value</u> |                        |
| Beginning stocks         | 4,308                               |                        |
| Production               | 18,453                              | 6,151                  |
| Imports from outside EEC | 1,251                               | 417                    |
| Total supply             | 24,012                              | Total receipts 6,568   |
| Consumption              | 16,650                              | 5,550                  |
| Exports outside EEC      | 2,592                               | 864                    |
| Ending stocks            | 4,562                               |                        |
| Total accounted for      | 23,771                              | Total outgo 6,414      |
| Residual (loss, error)   | 241                                 |                        |
| Total                    | 24,012                              |                        |

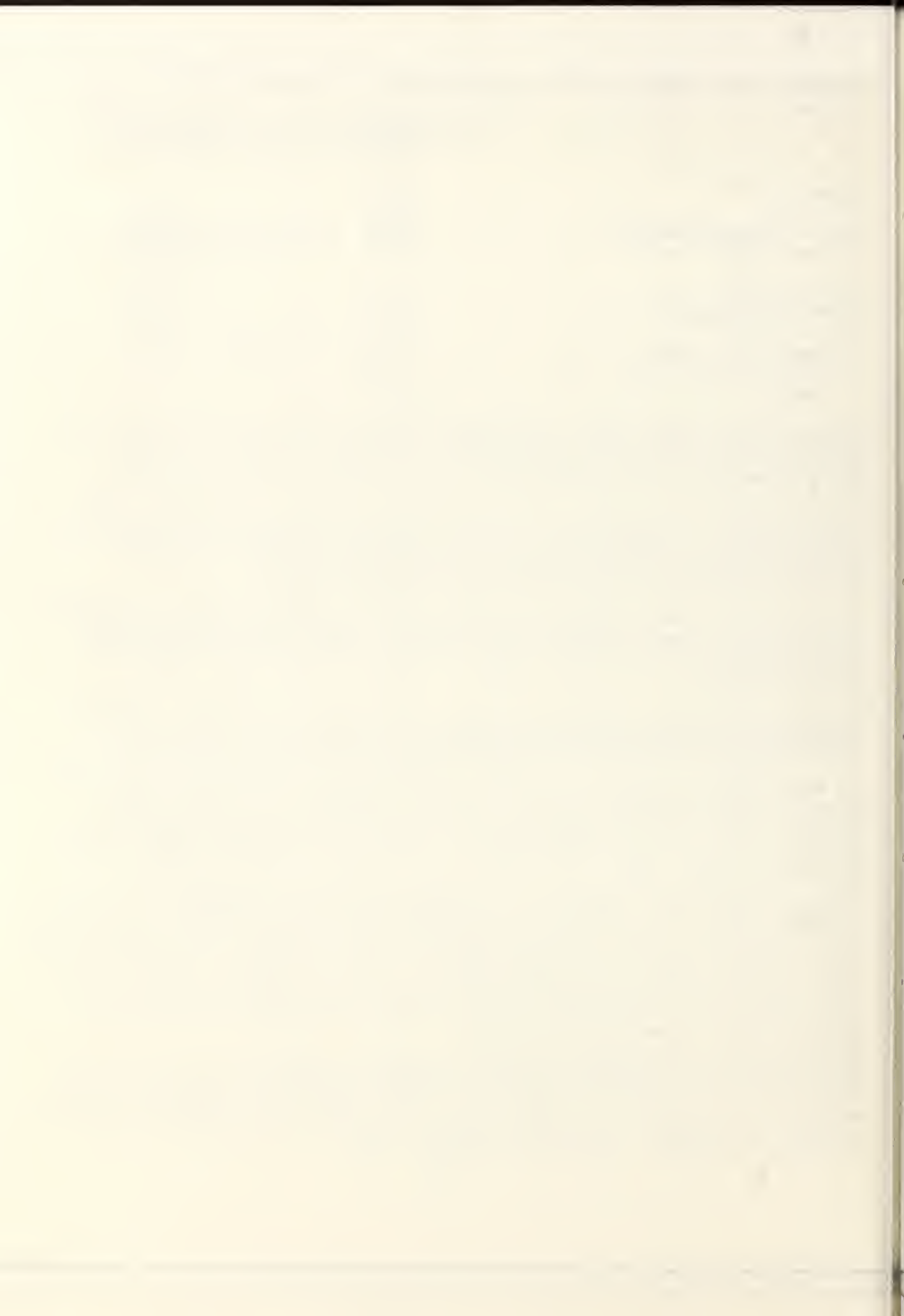
Imports from outside the EEC were 808,000 tons, raw value, in 1960 in the wake of the disastrous 1959 crop, 154,000 and 288,000 tons in 1961 and 1962, respectively, and, after another poor crop, at least 700,000 tons in 1963.

This is a matter of concern to the United States because of triangular trade relationships. In recent years, the Latin American Republics as a group have generally exported somewhat more goods to both the United States and the European Economic Community than they imported from either.

Any reduction in Latin American Republics exports to the EEC tends to diminish their foreign exchange earnings, tends thus to affect their purchasing power and, more specifically, their ability to import from the United States on commercial terms.

Early Proposals for a Common Sugar Policy. Soon after the Treaty of Rome had been signed, the emerging EEC announced that it would aim at an 80 percent tariff on raw sugar imports from third countries. That rate had been calculated as an arithmetic average of the then-prevailing import duty rates of the five economic entities comprising the Community. Protection at the 80 percent ad valorem rate would have resulted in a raw sugar price level approximately similar to that in the United Kingdom and in the United States, based upon the average and rather stable world sugar price level that prevailed from late 1953 until late 1956. However, in terms of price upheavals such as had been experienced in the wake of the Suez and Hungarian crises, an inflexible 80 percent tariff would have failed to provide domestic price stability along with protection from low prices. Thus an early milestone in the development of a Common Agricultural Policy on sugar was the publication in 1960 of Commission proposals in broad outline. <sup>5/</sup> According to these proposals, sugar imports would be subjected to a variable import levy quite similar to that for grains, and "restitution" payments would be provided for exports.

<sup>5/</sup> Bulletin of the European Economic Community, 5-1960, pp. 39-40. See also *Le rapport sur la position du Commerce du Sucre dans la Communauté Economique Européenne*, Association des Organisations Professionnelles du Commerce des Sucres, Bruxelles, November 30, 1962 and Guenther, H.E. *Die Zuckerwirtschaft in EWG und EFTA*. Lutzeyer. Baden-Baden and Bonn. 1962.



So, for example, when a commodity is a new export commodity, the export payment can really not be considered a refund or drawback of a levy previously collected as would be the case when a commodity is re-exported. Moreover, from the fiscal standpoint there is the problem of finding a source of funds for an export payment. By contrast, import levy collections are the natural source of funds for restitution payments or drawbacks on re-exports.

Basic to the variable import levy mechanism would be a target price which would be fixed prior to October 1 each year for the ensuing crop and marketing year. A threshold price would be fixed, based upon the target price, and the variable import levy would be the difference between threshold price and the minimum c.i.f. price of foreign sugar.

Although the Commission's 1960 proposals seem to have aimed at the gradual achievement of a single, integrated sugar market, there was at that time still considerable understandable sentiment within the national sugar industries for permitting their continued existence in unintegrated, loosely coordinated form and for achieving coordination through a "European Sugar Office." The rapid economic integration and the agreement on a Common Agricultural Policy for many products, which have taken place since 1960, have brought with them the need for and the more general acceptability of a completely integrated Common Agricultural Policy on sugar.

The price upheaval that has agitated the world sugar market since early 1963 has again demonstrated that fixed tariffs, whether specific or ad valorem, cannot impart stability to national sugar economies. In the context of emerging EC institutions, this upheaval has thus further strengthened the case against subjecting sugar imports to a fixed tariff. Germany has for years subjected its sugar imports to what is in fact a variable levy. In the other EEC countries the formerly existing fixed tariffs have been flexibly administered. For instance, the EEC Council suspended sugar duties for the entire Community from the fall of 1963 until July 31, 1964, because the world market price was above the price levels in the member countries and some of these needed sugar.

The Newly Proposed Policy. The new proposals by the EEC Commission dated March 10, 1964, essentially follow the 1960 proposals for the gradual achievement of a unified, completely integrated Common sugar market, by the beginning of 1970 at the latest. The first stage of the policy would become effective this year.

A target price would be set for refined sugar. That target price would be varied nationally at first. During a transition period of less than 6 years the national target prices would be harmonized so that a single target price, applicable to the entire Community, would ultimately result. The speed of harmonization would be tied to that of grain prices.

The Common Agricultural Policy on sugar, however, depends on that for grains not only for the time schedule for harmonization or integration but for most of its substantive features beginning with the target price just described.

As in the case of grains, intervention prices or, translated more meaningfully, support prices would lie 5 to 10 percent below the target prices. The



essential author would be entitled either to buy domestic sugar or enter into purchase agreements for such sugar offered to them at that intervention or support price.

Minimum beet prices would be derived from the intervention prices. Beet processors would have to pay the national minimum price to growers. It would be applicable to an identical quality standard in all member States. This identical standard will be a technical innovation for at least parts of the EEC since, in the past, payment for beets in the several EEC countries has been based upon different technical standards.

Also derived from the target price would be threshold prices and variable import levies. A threshold price is the target price minus transportation costs from the port of importation to the principal deficit supply area where the target price applies. When the world sugar price c.i.f. Common Market port of importation exceeds the threshold prices, import subsidies may be granted. The threshold price for raw sugar would be less than that for refined sugar by a processing margin which would be uniform for the entire EEC. The proposed regulation also provides for import levies on sugar beets, molasses, and on many, but not all, sugar-containing manufactured products.

Most important of these, from the standpoint of U.S. export interest, are canned peaches, canned pineapples, and canned fruit cocktail, as mentioned above. In the 1960-61 tariff negotiations between the United States and the EEC within the framework of the General Agreement on Tariffs and Trade, the EEC reserved the right to collect a duty on the sugar content of certain sugar-containing products in excess of a stated percentage and in addition to the regular duty on those products. The theory underlying this reservation is that the natural fruit sugar content would be exempted from this treatment, but the sugar added in the form of beet or cane sugar or corn sweeteners (mostly the former) would be dutiable. Under the proposal a variable import levy would be imposed on the sugar content above 9 percent for canned peaches and canned fruit cocktail and above 13 percent for canned pineapples. That levy, at the same rate as that applicable to refined sugar, would be substituted for the duty the imposition of which the EEC reserved in the 1960-61 tariff negotiations. That variable levy would be in addition to an ad valorem duty on those products ranging from 23 to 25 percent.

Recently, the world market sugar price has been at or above sugar price levels prevailing in the EEC countries. Under those conditions, the proposed variable import levy on the sugar added content of canned fruit products would be zero. However, with the world sugar price at more normal levels the proposed levy could injure U.S. export trade.

Import and export certificates for beet and cane sugar, sugar beets, and molasses, but not for sugar-containing products would be issued to the trade upon deposit of a performance bond assuring importation during 45 days and exportation during 3 months. The function of these certificates is threefold: (1) An applicant for a certificate may fix the rate of the variable levy as of the date of application rather than as of the date of importation or exportation; this advance fixation would require the payment of a premium; (2) the certificates would make available statistics on trade about to take place. In this



... would be fixed as the "set-asides" under the U.S. Sugar Act; (3) the issuance of certificates for the importation of raw or refined sugar from third countries would be suspended and thus an embargo imposed, if domestic prices are below the pertinent reference price.

The main function of this reference price is to be a reference point for the initiation of an embargo. Each member country would fix its reference prices each year 3 months before the beginning of the marketing year. One reference price would pertain to white sugar and another to raw sugar, both types of sugar of the same quality for which threshold prices are fixed. The reference prices would lie between target and intervention (support) prices and would have the same relationship to the latter two in all member countries. The difference between the reference prices for refined and raw sugar would be a processing margin, uniform throughout the Community, just as in the case of the difference between threshold prices for white and raw sugar.

Normally, exports would be supported with payments, but when the world price is above the domestic price, exports may be subjected to a levy. The export payments would be financed from the same European Agricultural Guidance and Guarantee Fund into which all variable import levies will be received once the single market stage has been achieved. The conditions and prices which will govern sugar exports to the Associated Countries and to Algeria are not yet clear and the extent to which sugar exports may be subsidized from the Fund will depend to a large extent on these.

During the transition period, the EEC Council of Ministers would fix a range for the national target prices. The exact level would be fixed by national authorities. Sugar imports from one member State into another would be subject to variable levies during the transition period, as long as the frontier price of the exporting country is below the threshold price of the importing country. Intra-Community levies would be lower than levies against third-country imports to assure Community preference; they would gradually be further reduced and would ultimately be abolished.

The proposals would finance seasonal inventory costs for the last 9 months of the marketing year from a pool to which beet processors, refiners, and importers would contribute. This arrangement would continue similar institutions which have existed in at least part of the Community during the past and which aim at selling sugar at prices which do not vary seasonally as a result of seasonal storage costs.

Quite unlike past sugar pricing policy in most of the Community out in line with Common Agricultural Policy on other products, the proposals would differentiate sugar prices regionally by transportation costs from surplus to deficit areas. This creates a special problem for the French overseas Departements. In the past the transportation expense from these islands to France has been subsidized. The sugar mills in the French West Indies, for instance, received a higher price than the Metropolitan French port price minus freight costs. This problem has been recognized, and France would be authorized to subsidize the sugar industries of these islands at a rate not in excess of transportation costs to Metropolitan France.





